

# AUDIT MEMO

SUBJECT: Audit Organization External Quality Controls Review Requirements	NO.: 99-02
REFERENCES: Generally Accepted Government Auditing Standards, 1994 Revision, Chapter 3, Section 3.31 through 3.36	DATE ISSUED: December 1998

**PURPOSE:** This memo reminds state departments and related audit units of their responsibility to undergo external quality control reviews (peer reviews).

**REQUIREMENTS:** Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States, prescribe four general standards which apply to all audit organizations conducting audits of government organizations, programs, activities, and functions and of government assistance received by nongovernment organizations. These standards include the following:

✓ Qualifications   ✓ Independence   ✓ Due Professional Care   ✓ Quality Control.

One aspect of the fourth standard, Quality Control, indicates that audit organizations conducting audits in accordance with GAGAS should undergo an external quality control review at least every three years by an outside organization. This requirement is effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995.

**ISSUES:** There may be significant consequences to state departments whose audit organizations do not comply with this requirement including, but not limited to: loss of federal funds, criticism by state control agencies, unfavorable lawsuit outcomes, loss of federal audit subsidies, and licensing boards' sanctions against the audit organization.

**METHODOLOGY:** External quality control reviews may be obtained by a variety of means. CPA firms may provide these services under contract. In addition the California Association of State Auditors (CASA) is offering coordination services to obtain peer reviews through an exchange of resources with other state entities. The exchange of resources will be accomplished through Memoranda of Understanding and will allow departments to meet peer review requirements without additional funding. To obtain more information about this program please contact Bart Aspling or John Fukasawa, Co-Chairs, CASA Peer Review Committee, at (916) 323-4100 (Bart), or (916) 657-8635 (John).

It is the responsibility of the individual state department to ensure that any peer review obtained meets the requirements of GAGAS. There is no additional state funding available for these reviews.

Please ensure this Audit Memo is distributed to departmental management and audit organizations. If you have any questions regarding GAGAS requirements or this audit memo, contact Richard B. Smith, at (916) 322-2985, Ext. 3157.

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